

APESB

Accounting
Professional and
Ethical Standards Board

Basis for Conclusions: Amendment to Auditor Independence Requirements in Section 290: Independence – Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants*

Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board

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BASIS FOR CONCLUSIONS:
Amendment to Auditor Independence Requirements in Section 290:
Independence - Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants*

This basis for conclusions has been prepared by technical staff of Accounting Professional & Ethical Standards Board (“APESB”). This document has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the development of Amendments to Auditor Independence Requirements in Section 290: Independence - Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants*.

The basis for conclusions **does not** form part of Amendment to Auditor Independence Requirements in Section 290: Independence – Assurance Engagements of APES 110 *Code of Ethics for Professional Accountants* and is not a substitute for reading the standard.

Background

Accounting Professional & Ethical Standards Board Limited (APESB) has amended specific paragraphs in respect of auditor independence in Section 290: Independence – Assurance Engagements of APES 110: *Code of Ethics for Professional Accountants* (“the Code”) in line with the Corporations Act amendments enacted in June 2007 by the Simplified Regulatory System(SRS) legislation.

Previously these paragraphs were aligned with the Corporations Act legislation that existed at the time and differed from the IFAC Code issued by International Ethics Standards Board for Accountants (IESBA). However, due to the amendments enacted under the SRS legislation noted above these paragraphs no longer conflict with the international requirements and the tailoring previously required for the Australian environment have now been revised. This ensures that the Australian requirements now conform more closely to the IFAC Code.

Main changes introduced to the revised Section 290

The following key changes have been adopted in relation to auditor independence:

- Removal of the “all partners” rule on financial investments in audit clients. The restrictions will not apply to partners who are not involved in the audit and not in a position to influence the outcome of the audit.
- Amendment of the 2 year cooling off period for a former partner of the firm. The safeguard of two years since departure from the firm has been replaced with two years since the date of the last audit report in which the individual was a member of the audit team.
- Introduction of a five-year limitation on the multiple former partner rule.

These changes will ensure alignment of the Australian and International Codes of Ethics as well as the Corporations Act.

APESB issued an exposure draft of the proposed amendments to Auditor Independence Requirements in Section 290: Independence – Assurance Engagements, in December 2007, with a comment deadline of January 18, 2008. The APESB received comment letters from the professional bodies and four professional firms.

Respondent's comments

There were no significant issues or concerns raised by respondents with the consensus view that the revision would appropriately align the Code with the IFAC Code of Ethics for Professional Accountants and the Corporations Act 2001, as amended by the Corporations Legislations Amendment (Simpler Regulatory System) Act. The respondents further stated that the convergence of national and international auditor independence requirements will eliminate inconsistencies and prevent confusion for practitioners in Australia.

There was overwhelming support for the exposure draft, with most respondents highlighting the need for the amendments to be operative at the earliest possible date and welcoming the proposed effective date of 15 February 2008.

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